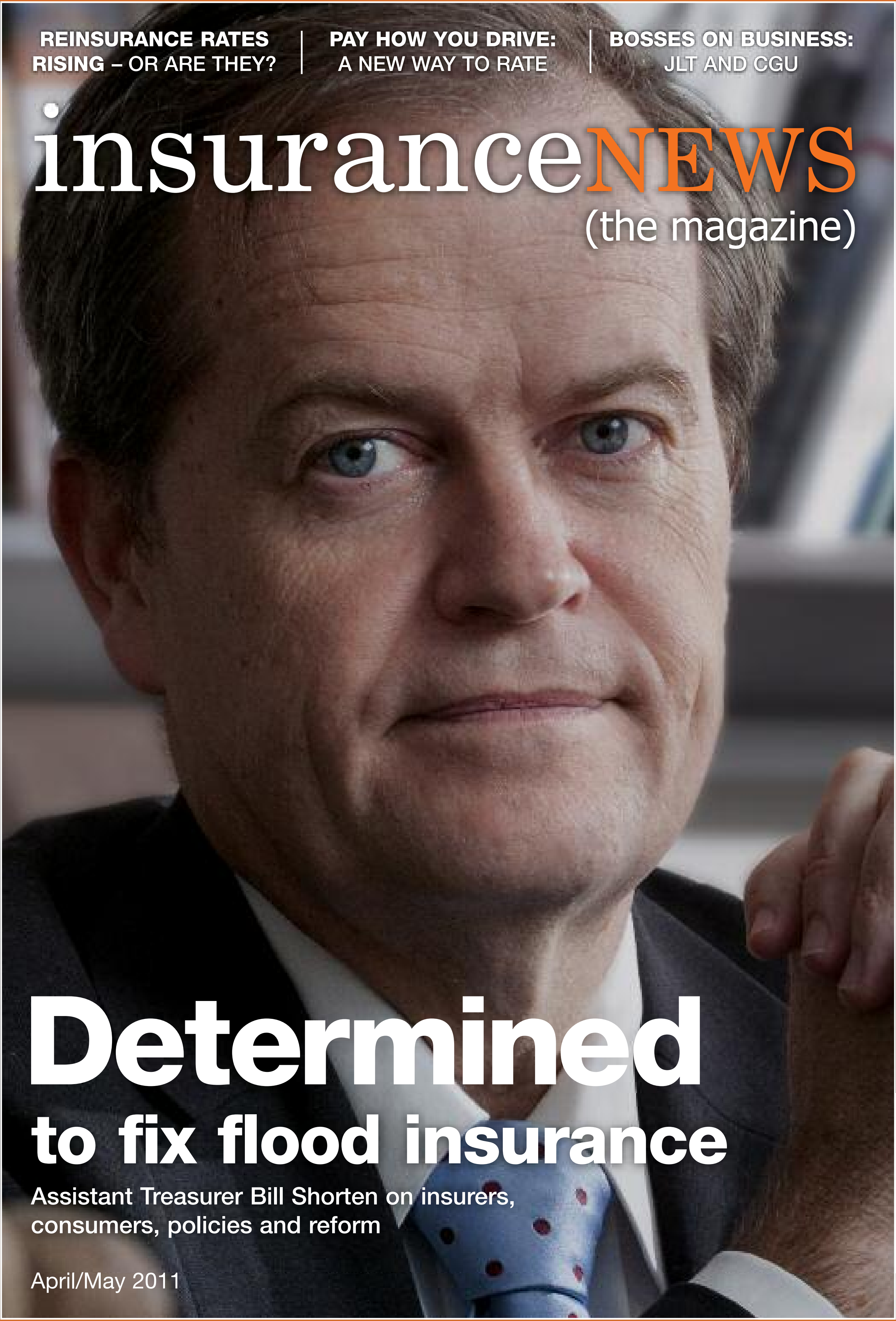

REINSURANCE RATES RISING – OR ARE THEY?

PAY HOW YOU DRIVE: A NEW WAY TO RATE

BOSSES ON BUSINESS: JLT AND CGU

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April/May 2011

Pay ~~as~~ how you drive:

the future of motor risk rating

Moving past gender-based risk ratings: telematics records data on such things as behaviour and travel

New smart technology measures driving behaviour in detail, and it's coming soon to your car

By Michelle Hannen

PAY-HOW-YOU-DRIVE INSURANCE IS set to be the next big advance in Australian motor underwriting, with some of Australia's largest car insurers known to be investigating the new pricing approach. Hot on the heels of pay-as-you-drive, pay-how-you-drive is already being rolled out in the US and UK.

The risk rating approach uses telematics – smartbox technology – which monitors when, where and most importantly how vehicles are driven to provide accurate risk pricing on an individual basis.

Paul Stacy, the Managing Director of UK-based telematics supply, research and data company Wunelli, is heading to Australia next month to attend high-level meetings with three of the country's top five motor insurers.

"They're taking the first steps, understanding what's been done in the UK, the benefits to loss ratios and what benefits can be given to young drivers," he says.

Mr Stacy – an Australian who worked in insurance at Accenture before moving to the UK in 2004 – declined to reveal which insurers he is meeting with, but an industry source named Suncorp, IAG and Allianz as likely companies.

"[Suncorp Group Chief Executive] Patrick Snowball was a leading proponent of telematics during his time at Norwich Union, and both Allianz and IAG subsidiary Equity Red Star underwrite Wunelli's Coverbox product in the UK," the source says.

Mr Stacy says Wunelli was founded in 2006, initially to investigate telematics and its potential.

In 2009 it launched a broking business, Coverbox, as a pilot brand to test

“Smartboxes, and the costs associated with them, will soon be redundant and insurers will instead buy driving data from car manufacturers”

pay-as-you-drive telematics in the young driver market. A panel of six insurers underwrite Coverbox, which has around 20,000 live policies in the UK market, a number which has been limited in line with the brand’s pilot status.

However, Mr Stacy says those policies, which represent around 12,000 years on risk, have provided enough data to show clear improvements to loss ratios from using telematics.

Telematics-based insurance differs from the more simplistic pay-as-you-drive models, such as that offered in Australia by Hollard’s Real Insurance brand, as premiums are based on data captured by a smartbox fitted to the vehicle rather than by information supplied by the policyholder.

The smartbox captures real-time vehicle usage data which is transmitted back to the insurer’s systems via a mobile phone signal.

Early trials and products have focused on pay-as-you-drive telematics policies mainly by monitoring mileage, but more sophisticated policies are focusing on pay-how-you-drive by combining mileage with monitoring of trip duration, trip time of day, speed and driving habits such as acceleration and braking behaviour.

As a result premiums can be based on the actual risk posed by an individual’s driving, and policyholders can view information about their driving habits online, allowing them to address safety issues and compare themselves to other drivers.

Smartboxes can also be used to locate stolen vehicles and provide instant notification of accidents to insurers.

Big Brother concerns about tracking and privacy surrounded the first UK telematics trials, but Mr Stacy says such concerns have dissipated.

“We don’t track individuals, we track vehicles,” he told *Insurance News*. “Smartphones track individuals, and people can’t seem to get enough of them.”

Insurers supply and install the smartboxes, covering the cost involved in that process, but with every new car sold in the UK from next year to be fitted with a SIM card, Mr Stacy says smartboxes, and the costs associated with them, will soon be redundant and insurers will instead buy driving data from car manufacturers.

The first pay-as-you-drive telematics trial was launched by Norwich Union (now Aviva), in the UK in 2004, using a licence to the technology and pricing method it acquired from US insurance giant Progressive.

Norwich Union extended the trial to motor fleet customers in 2005 and rolled out the product more widely in 2006.

Progressive launched a telematics research project in the US in 2004, before rolling out its My Rate telematics-based product in 2008. This year it has launched Snapshot, a more advanced pay-how-you-drive product, across the US. In 2009, Progressive launched online-only motor insurer Progressive Direct into the Australian market, but the Australian arm does not yet use telematics.

Last month UK insurer Co-operative Insurance announced the launch of Young Driver Insurance, a pay-how-you-drive telematics policy for 17 to 25-year-olds.

Wunelli has helped Co-operative develop the policy and is providing it with smartboxes and data analysis.

Under that policy, drivers are assessed every 90 days and responsible driving behaviour is rewarded with a discount of up to 11% of the annual premium. Conversely, bad drivers can see premium increases of up to 15% applied.

Mr Stacy says more UK insurers will be launching pay-how-you-drive products this year, which may go some way to solving problems in the UK’s motor market, where inflation on personal injury claims and insurance fraud have hit insurers’ profits.

The problem has been particularly pronounced in the younger driver segment, resulting in motor premiums for younger drivers rising on average by 58% to more than £2200 in the past year.

The developments also provide insurers with a new way of risk rating following the European Union’s decision to outlaw insurance underwriting based on gender, which comes into force from December 21 next year.

Mr Stacy says demand has “picked up enormously” since the EU decision. “I’m getting calls from CFOs and MDs angry with us because we can’t attend meetings quickly enough,” he says.

He believes a ban on underwriting based on age will soon follow across Europe.

To tackle these issues, Wunelli has developed a method for scoring the safety of drivers called Driving DNA, using information provided by smartboxes rather than gender as a risk factor.

Driving DNA can predict the chance of a driver making an at-fault claim by scoring drivers out of 100, where 100 is extremely safe and zero is extremely unsafe.

Mr Stacy says Driving DNA scores often have a strong correlation with traditional gender preferences used by insurers.

He believes Australia will inevitably follow Europe down the gender anti-discrimination path. “[Australian insurers] will need to justify why they discriminate in this way,” he says. “One complaint will do it.”

Even without a gender ban, the business case for telematics in Australia is becoming stronger. “While the overall accident rate may be falling, the accident rate for young drivers in Australia is not dropping.”

But in the end, he says, it may simply be a question of economics.

“There’s money to be made from being able to more accurately price risk.” □